

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC)	
CORPORATION FOR AN ORDER APPROVING)	CASE NO.
CERTAIN ACCOUNTING TREATMENT OF)	8921
AMOUNTS PAID FOR COAL CONTRACT AMENDMENT)	

O R D E R

On October 24, 1983, Big Rivers Electric Corporation ("Big Rivers") filed an application with the Public Service Commission ("Commission") seeking approval of the method by which it proposes to handle the accounting for a \$12.5 million lump-sum payment to be made to Cravat Coal Company, Inc., ("Cravat") as partial consideration for a proposed amendment to its existing coal supply contract with Cravat. Big Rivers stated in its application that it cannot enter into the proposed coal contract amendment if there is any risk that the Commission will not allow the lump-sum payment to be passed through the fuel adjustment clause, thus preventing Big Rivers from immediately beginning to recover the \$12.5 million payment to Cravat.

The sole intervenor in this case was the Consumer Protection Division in the Office of the Attorney General ("AG"). The AG did not offer testimony and did not challenge Big Rivers' application.

In its Order of January 4, 1984, the Commission granted interested parties the opportunity to file written comments on

Big Rivers' application and/or to request a public hearing. On January 18, 1984, the AG requested that a public hearing be scheduled, but after further analysis of Big Rivers' application the AG withdrew its request on January 24, 1984. Following proper notice, no other party of record requested a public hearing or filed written comments.

Big Rivers has negotiated an amendment to its February 11, 1977, Coal Contract with Cravat which reduces both the price and quality of the coal to be delivered over the contract's remaining 8-year term. If Big Rivers executes the proposed coal contract amendment, it will be required to pay Cravat the sum of \$12.5 million within 10 days from the date of execution. Big Rivers proposes to set up a deferred debit of \$12.5 million and charge a portion of that deferred debit to fuel stock with the delivery of each ton of coal by Cravat, until the deferred debit is depleted. These amounts charged to fuel stock will increase the average price of each ton of coal burned, which will in turn increase the amount collected through the fuel adjustment clause each month. However, this increase will be more than offset by the reduction of the proposed coal contract amendment, thereby resulting in an actual net decrease in the average price of each ton of coal burned and the amount collected through the fuel adjustment clause each month.

Big Rivers estimates the net present value of the proposed coal contract amendment to be approximately \$19.8 million using a 10.5 percent discount rate, or a net savings in fuel expenses over the next 8 years of approximately \$37.2 million after

deducting the initial prepayment of \$12.5 million. Furthermore, Big Rivers does not expect to incur any additional investment in plant or maintenance expenses as a result of the change in the quality of the coal to be delivered under the proposed coal contract amendment.

Upon execution of the proposed coal contract amendment, Cravat will issue an irrevocable letter of credit in the amount of \$12.5 million as security for performance by Cravat of its obligations under the amended coal contract which will remain in effect until such time that Cravat delivers approximately 1,136,364 tons of coal. If Cravat defaults in the delivery of coal under the amended contract, or if it is terminated by Big Rivers, Big Rivers proposes to continue to charge amounts from the deferred debit to fuel stock as though Cravat was continuing to deliver the minimum of 36,000 tons of coal per month. Under these circumstances, the deferred debit would also be credited with any refund of the \$12.5 million received from Cravat and/or under the letter of credit.

The Commission, having considered the evidence of record, is of the opinion and finds that:

1. Since the \$12.5 million is in effect a prepayment of fuel costs to obtain more favorable coal supply contract terms, the fuel adjustment clause regulation (807 KAR 5:056) does not preclude the pass-through of such a prepayment.
2. Big Rivers has exercised prudent fuel procurement practices in negotiating the amendment to the Cravat coal contract, which will result in lower fuel costs.

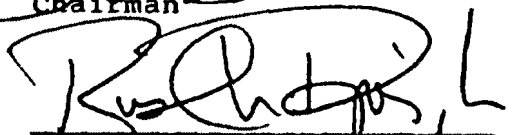
3. Big Rivers' application should be approved because it provides both an immediate and ultimate benefit to the ratepayer.

IT IS THEREFORE ORDERED that Big Rivers' application be and it hereby is approved.

Done at Frankfort, Kentucky, this 13th day of February, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary